implement the Enforcement Bureau's decision even if Verizon files an Application for Review of that decision. Should the Commission grant any part of Verizon's application for review, the independent auditor shall modify its procedures accordingly. In the event that Verizon's application for review has not been acted on by the date of the filing of the final biennial audit report, the results of any such affected procedures shall be omitted from the final biennial audit report until such time as the Commission issues a final decision; however, the issues under review shall be disclosed in the final biennial audit report as matters subject to an application for review with the Commission that have not yet been acted upon.

The text below provides the requirements for the engagement as listed in section 53.209(b) of the FCC rules and indicates the nature, timing, and extent of the AUP for each requirement. It should be noted that AUP engagements are not based on the concept of materiality, therefore, the practitioner must report all results in the form of findings from application of the agreed-upon procedures.

COMPLIANCE REQUIREMENTS

4. The requirements that will be covered in the Biennial Audit are contained in 47 U.S.C. Section 272(b), (c), and (e) of the Communications Act of 1934, as amended, and in 47 C.F.R. 53.209(b) of the FCC rules and regulations. Below is a listing of those requirements:

Structural Requirements

The separate affiliate required under section 272 of the Act:

I. Shall operate independently from the Bell operating company;

II. Shall maintain books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell operating company;

III. Shall have officers, directors, and employees that are separate from those of the Bell operating company;

IV. May not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell operating company;

Accounting Requirements

The separate affiliate required under section 272 of the Act:

V. Shall conduct all transactions with the Bell operating company on an arm's length basis with the transactions reduced to writing and available for public inspection.

The Bell operating company:

VI. Shall account for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

Nondiscrimination Requirements

The Bell operating company:

VII. May not discriminate between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards;

VIII. *Shall fulfill any requests from unaffiliated entities for telephone* exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates;

IX. Shall not provide any facilities, services, or information concerning its provision of exchange access to the section 272 affiliate unless such facilities, services, or information are made available to other providers of interLATA services in that market on the same terms and conditions;

X. Shall charge its separate affiliate under section 272, or impute to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service;

XI. May provide any interLATA or intraLATA facilities or services to its interLATA affiliate if such services or facilities are made available to all carriers at the same rates and on the same terms and conditions, and so long as the costs are appropriately allocated.

Related FCC Dockets

5. These requirements have been clarified and expanded upon in several FCC proceedings. These proceedings are subject to further modification in subsequent FCC orders, or in orders on reconsideration. Below is a list of FCC orders related to the above requirements:

CC Docket No. 96-149, In the Matter of Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended; *First Report and Order and Further Notice of Proposed Rulemaking*; Released December 24, 1996. Other releases under this docket were issued on February 19, 1997; June 24, 1997; June 10, 1998; September 3, 1999; April 27, 2001.

CC Docket No. 96-150, In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996; *Report and Order*; Released December 24, 1996. Another release under this docket was issued on June 30, 1999.

CC Docket No. 96-98, In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; *First Report and Order*; Released August 8, 1996 (First Interconnection Order); *Second Report and Order and Memorandum Opinion and Order*; Released August 8, 1996 (Second Interconnection Order).

CC Docket No. 96-115, In the Matter of Implementation of the Telecommunications Act of 1996: Telecommunications Carriers' Use of Customer Proprietary Network Information and Other Customer Information; *Second Report and Order and Further Notice of Proposed Rulemaking*; Released February 26, 1998.

CC Docket No. 00-199, In the Matter of 2000 Biennial Regulatory Review -- Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2; *Report and Order and Further Notice of Proposed Rulemaking*; Released November 5, 2001.

CC Docket No. 98-121, In the Matter of Application of BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc., for Provision of In-Region, InterLATA Services in Louisiana; *Memorandum Opinion and Order*; Released October 13, 1998.

WC Docket No. 02-112, In the Matter of Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements; *Memorandum Opinion and Order*; Released December 23, 2002.

WC Docket No. 03-228, In the Matter of Section 272(b)(1)'s "Operate Independently" Requirement for Section 272 Affiliates; *Report and Order*; Released March 17, 2004.

6. In addition, the following pending FCC dockets may, if applicable to the activities of the BOC, result in additional regulations surrounding the Nondiscriminatory Requirements:

Notice of Proposed Rulemaking, FCC 01-339, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-321 Performance Measurements and Standards for Interstate Special Access Services; CC Docket No. 96-149 Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended; RM 10329 AT&T Corp. Petition to Establish Performance Standards, Reporting Requirements, and Self-Executing Remedies Need to Ensure Compliance by ILECs with Their Statutory Obligations Regarding Special Access Services.

Notice of Proposed Rulemaking, FCC 01-331, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-318 Performance Measurements and Standards for Unbundled Network Elements and Interconnection; CC Docket No. 98-56 Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance.

The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period.

ENGAGEMENT PLAN

Engagement Period

7. The AUP engagement shall cover 24 months of operations beginning January 3, 2005 and ending January 2, 2007 for all states where Verizon has obtained authority to provide in-region interLATA services. For all of the Verizon section 272 affiliates the engagement will also cover all assets added since the last audit. The biennial audit will cover all services for which a separate affiliate is required under section 272(a)(2) and includes all BOCs within the Verizon region and ILECs providing or receiving services to/from the section 272 affiliates. The test period to be covered by these agreed-upon procedures will be from January 3, 2005 through September 30, 2006 ("Test Period"), except where noted.

Sunset Provisions

8. Section 272(f)(1) of the Communications Act provides that section 272 (other than subsection (e)) shall cease to apply to the interLATA telecommunications services of a BOC three years after the date the BOC receives authorization to provide interLATA telecommunications services under section 271(d), unless the Commission extends such three-year period by rule or order. Thus, section 272(d) which concerns the Biennial Audit sunsets three years after section 271 authorization. The Commission has determined that such "sunset" shall apply on a state-by-state basis according to the date that each state receives section 271 authorization.[4] Therefore, as each state within the Verizon region sunsets, that state may be excluded from further section 272 audits as of the date of sunset as recognized by the FCC. However, if a BOC in a given state has affiliate transactions with any section 272 affiliate, those transactions will continue to be part of the audit because of the continuation of the Commission's rules governing affiliate transactions in part 32.

[4] WC Docket No. 02-112, In the Matter of Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements; *Memorandum Opinion and Order*; Released December 23, 2002, paragraphs 12-13.

Accordingly, operations in the following states may be excluded from this engagement as of the effective date of the related FCC public notice:

State	**Sunset Effective Date**
New York	December 23, 2002[5]
Massachusetts	April 16, 2004[6]
Connecticut	July 20, 2004[7]
Pennsylvania	September 19, 2004[8]
Rhode Island	February 24, 2005[9]
Vermont	April 17, 2005[10]
Maine	June 19, 2005[11]
New Jersey	June 24, 2005[12]
Delaware	September 25, 2005[13]
New Hampshire	September 25, 2005[13]
Virginia	October 30, 2005[14]
Maryland	March 19, 2006[15]
Washington D.C.	March 19, 2006[15]
West Virginia	March 19, 2006[15]

[5] WC Docket No. 02-112, Section 272 Sunsets for Verizon in New York State by Operation of Law on December 23, 2002 Pursuant to Section 272(f)(1); *Public Notice*; Released December 23, 2002.

[6] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications, Inc. in the State of Massachusetts by Operation of Law on April 16, 2004 Pursuant to Section 272(f)(1); *Public Notice*; Released April 16, 2004.

[7] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications, Inc. in the State of Connecticut by Operation of Law on July 20, 2004 Pursuant to Section 272(f)(1); *Public Notice*; Released July 20, 2004.

[8] WC Docket No. 02-112, Section 272 Sunset for Verizon Communications, Inc. in the State of Pennsylvania by Operation of Law on September 19, 2004 Pursuant to Section 272(f)(1); *Public Notice*; Released September 17, 2004.

[9] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications, Inc. in the State of Rhode Island by Operation of Law on February 24, 2005 Pursuant to Section 272(f)(1); *Public Notice*; Released February 24, 2005.

[10] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications, Inc. in the State of Vermont by Operation of Law on April 17, 2005 Pursuant to Section 272(f)(1); *Public Notice*; Released April 20, 2005.

[11] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications Inc. in the State of Maine by Operation of Law on June 19, 2005 Pursuant to Section 272(f)(1); *Public Notice*; Released June 20, 2005.

[12] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications Inc. in the State of New Jersey by Operation of Law on June 24, 2005 Pursuant to Section 272(f)(1); *Public Notice*; Released June 24, 2005.

[13] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications Inc. in the States of New Hampshire and Delaware by Operation of Law on September 25, 2005 Pursuant to Section 272(f)(1); *Public Notice*; Released September 26, 2005.

[14] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications Inc. in the State of Virginia by Operation of Law on October 30, 2005 Pursuant to Section 272(f)(1); *Public Notice*; Released October 31, 2005.

[15] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications Inc. in the District of Columbia and the States of Maryland and West Virginia by Operation of Law on March 19, 2006 Pursuant to Section 272(f)(1); *Public Notice*; Released March 20, 2006.

However, for this engagement operations in each of the sunset states will be included.

Sampling

9. Certain agreed-upon procedures may require testing on a sample basis. The sample sizes and sampling methodologies to be used in performing such agreed-upon procedures shall be determined after the initial survey and/or during the performance of the Biennial Audit of the section 272 affiliate. Such determinations shall be made jointly by the practitioner and specified parties. During this process, the practitioner shall obtain detailed listings or lists (representing the population of potential items to be tested) for each procedure. For those procedures requiring statistical sampling, the practitioner shall develop detailed statistical parameters that include the total number of items in the universe, the number of items sampled, and method of selection. Where the specified parties and practitioner indicate, and when appropriate, the practitioner shall select a statistically valid sample using random and stratified sampling techniques with the following parameters: a desired confidence level equal to 95%; a desired upper precision limit equal to 5%; and an expected error rate of 1%. Taking under consideration cost versus benefit to be derived, the Oversight Team shall approve the sampling plan, after consulting with Verizon, when reviewing the detailed procedures written by the practitioner and/or during the execution of the procedures.

10. Generally, the practitioner should consider all data and information falling within the engagement period; however, unless otherwise stated in this document or accepted by the Oversight Team, the practitioner should obtain data and information as of the latest period available during the engagement period. For procedures requiring sampling sizes to be based on information available as of the end of the Test Period, the practitioner will utilize September 30 as the relevant date, unless otherwise noted. In addition, to the extent that the companies' processes and procedures change between the time of execution of these procedures and the end of the engagement period, the practitioner has an obligation to test these changes to enable the specified parties to determine continued compliance with the section 272 requirements.

Definitions

11. <u>BOC</u> If the BOC transfers or assigns to an affiliated entity ownership of any network elements that must be provided on an unbundled basis pursuant to section 251(c)(3), such entity shall be subject to all of the requirements of the BOC. For purposes of this engagement, in the event that the BOC provides exchange and/or exchange access services on a retail or wholesale basis exclusively through one or more of its subsidiaries or affiliates, or through one or more other subsidiaries, divisions, etc., of the parent Regional Holding Company, and the same services cannot be purchased directly from the BOC, then these entities shall also be subject to all of the relevant nondiscriminatory requirements of Objectives VII through XI of this document. Affiliates that merely resell the BOC's exchange services and/or

exchange access services or lease unbundled elements from the BOC, or engage in permissible joint marketing activities (see section 272(g)(1) of the Act), shall be excluded from these requirements.

12. *Verizon BOC* For the purposes of this engagement, the term "Verizon BOC" includes the following former Bell Atlantic telephone operating companies: Verizon New York, Inc., Verizon New England, Inc., Verizon – Washington, D.C., Inc., Verizon – Maryland, Inc., Verizon – Virginia, Inc., Verizon – West Virginia, Inc., Verizon – New Jersey, Inc., Verizon – Pennsylvania, Inc., Verizon – Delaware, Inc., and any successor or assign of such company as described in ¶11. The term "BOC", for purposes of this engagement, does not include the former GTE telephone operating companies listed below; they shall be termed "ILECs".

The term "ILEC" (Incumbent Local Exchange Carrier) includes the following former GTE telephone companies: Verizon California, Inc., Verizon Florida, Inc., Verizon Mid-States (Contel of the South, Inc.), Verizon North, Inc., Verizon Northwest, Inc., Verizon South, Inc., Verizon Southwest (GTE Southwest, Inc.), Verizon West Coast, Inc., Puerto Rico Telephone Company (PRTC), and any successor or assign of such company as described in ¶11 until the date of sale of such company to a company not affiliated with Verizon.

13. *Affiliate* The term "affiliate" shall refer to a person that (directly or indirectly) owns or controls, is owned or controlled by, or is under common ownership or control with, another person. For this purpose, the term "own" means to own an equity interest (or the equivalent thereof) of more than 10 percent. (*See* section 3 of the Communications Act of 1934, as amended.)

14. *Verizon Section 272 Affiliate* The agreed-upon procedures are required to be performed, unless otherwise specified, on all section 272 affiliates as defined by the Act. For the purposes of this engagement, the term "separate affiliate" or "section 272 affiliate" includes the following companies: Bell Atlantic Communications, Inc. (d/b/a/ Verizon Long Distance); NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions); and Verizon Global Networks, Inc. On May 17, 2005, Verizon acquired approximately 13.9% equity interest in MCI, Inc. ("MCI") common stock. On January 6, 2006, Verizon acquired MCI[16] with the following MCI affiliates becoming section 272 affiliates: MCI Communications Services, Inc. (d/b/a Verizon Business Services); MCI International Services, Inc.; MCI International, Inc.; MCI Network Services of Virginia, Inc.; MCImetro Access Transmission Services LLC (d/b/a Verizon Access Transmission Services); MCImetro Access Transmission Services of Virginia, Inc. (d/b/a Verizon Access Transmission Services of Virginia); MCImetro Access Transmission Services of Massachusetts, Inc. (d/b/a Verizon Access Transmission Services of

[16] MCI, Inc. is treated like a section 272 affiliate. *See In the Matter of Verizon Communications Inc. and MCI, Inc. Applications for Approval of Transfer of Control*, WC Docket No. 05-75, Memorandum Opinion and Order, 20 FCC Rcd 18433 (2005).

Massachusetts); Metropolitan Fiber Systems of New York, Inc.; Teleconnect Long Distance Services and Systems Co.; Skytel Corporation; TTI National Inc.. The term "section 272 affiliates" also includes the following section 272 affiliates resulting from the Bell Atlantic/GTE merger: *Verizon Select Services Inc. (VSSI) (formerly GTE Communications* Corp.); Verizon International Communications Services Inc. (formerly Codetel International Communications Inc. (CICI)); any other affiliate that originates interLATA telecommunications services in the Verizon region that is subject to section 272 separation requirements; and any affiliate that engages in manufacturing activities as defined in section 273(h).

On February 18, 2005, ownership of Verizon Global Solutions, Inc. (GSI) was transferred from Bell Atlantic International, Inc. to GTE Corporation, and on March 1, 2005, GSI was merged into Verizon Select Services Inc..

15. *Official Services* Official Services mean those services permitted by the United States District Court for the District of Columbia in United States v. Western Electric Co. Inc. See 569 F. Supp. 1057, 1098, n.179 (1983) (defined as "communications between personnel or equipment of an Operating Company located in various areas and communications between Operating Companies and their customers"), and its progeny.

16. *Obtain* For purposes of this engagement, the term "obtain" as referred to in the procedures contained herein, shall mean that the practitioner will physically acquire, and generally retain in the working papers, all documents supporting the work effort performed to adequately satisfy the requirements of a procedure. The practitioner, in their professional judgement, shall decide which items are too voluminous to include in the working papers. The practitioner shall include a narrative description of the size of such items as well as any other reasons for their decision not to include them in the working papers.

Conditions of Engagement

17. The practitioner leading this engagement shall be a licensed CPA. The practitioner's team performing the engagement shall be familiar with the standards established for an agreed-upon procedures engagement, the requirements for the Biennial Audit, and its objectives. The team performing the engagement shall also be independent as defined in the Statements on Standards for Attestation Engagements (SSAE 10, paragraphs 1.35-1.38) and in compliance with the Sarbanes-Oxley Act of 2002. The practitioner shall disclose in its engagement letter to Verizon how the team shall comply with the independence requirements of the Sarbanes-Oxley Act of 2002. All members of the team performing the engagement shall have a sufficient general understanding of the relevant information contained in the following documents:

- Sections 271 and 272 of the Communications Act of 1934, as Amended;

- Section 32.27, Transactions with Affiliates, of the FCC's Uniform System of Accounts for Telecommunications Companies (USOA);

- *The relevant orders and rules from the following FCC Dockets:*

  a. CC Docket No. 86-111 dealing with the allocation of joint costs between the regulated and nonregulated activities of the telephone company;

  b. CC Docket No. 96-149 dealing with the implementation of the non-accounting safeguards of sections 271 and 272 of the Act;

  c. CC Docket No. 96-150 dealing with the implementation of the accounting safeguards of sections 271 and 272 of the Act;

  d. CC Docket No. 96-98 dealing with the implementation of the local competition provisions of the Act (the interconnection orders);

  e. CC Docket No. 96-115 dealing with the use of customer proprietary network information;

  f. Notice of Proposed Rulemaking, FCC 01-339, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-321 Performance Measurements and Standards for Interstate Special Access Services; CC Docket No. 96-149 Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended; RM 10329 AT&T Corp. Petition to Establish Performance Standards, Reporting Requirements, and Self-Executing Remedies Need to Ensure Compliance by ILECs with Their Statutory Obligations Regarding Special Access Services. The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period.

  g. Notice of Proposed Rulemaking, FCC 01-331, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-318 Performance Measurements and Standards for Unbundled Network Elements and Interconnection; CC Docket No. 98-56 Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance. The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period.

- Verizon's section 271 application(s) and related FCC approval(s);

- Orders issued by state commissions approving interconnection agreements that are covered in the scope of the engagement;

- Petitions for arbitration with the BOC for those agreements tested within the engagement.

18. In addition, to the extent the practitioner determines procedures included in this plan cannot be performed, the practitioner will propose alternate procedures to the Oversight Team, as appropriate. The practitioner will inform the Oversight Team if the practitioner determines it is necessary to modify the agreed-upon procedures or the scope of the engagement, in order to provide the specified parties with all of the information needed for the specified parties to determine compliance with the various requirements. The practitioner shall include any additional hours and fees that would result from revisions of the procedures or of the scope of the engagement. After the practitioner informs the Oversight Team of any revisions to the final audit program or to the scope of the audit, the Oversight Team shall inform Verizon about these revisions. These revisions will be subject to the procedures described in paragraph 3 above.

19. The practitioner may use the services of a specialist for assistance in highly technical areas. The practitioner and the specified parties shall explicitly agree to the involvement of any specialist to assist in the performance of the engagement. The specialist shall not be affiliated in any form with Verizon.

20. The practitioner's use of internal auditors shall be limited to the provision of general assistance and the preparation of schedules and gathering of data for use in the engagement. Under no circumstances shall the internal auditors perform any of the procedures contained in this document. All the procedures in this document shall be performed by the practitioner.

21. The practitioner shall not use or rely on any of the procedures performed during any of the Verizon BOC/ILEC cost allocation manual (CAM) audits to satisfy any of the requirements in Objectives V/VI.

Representation Letters

22. The practitioner shall obtain three types of representation (assertion) letters. The first type of representation letter shall address all items of an operational nature (see para. 23). The second type of representation letter shall address all items of a financial nature (see para. 24). The third type of representation letter shall state that all section 272 affiliates have been disclosed (see para. 25). The following paragraphs detail the contents of each type of

representation letter.

23. The representation letters related to operations issues shall be signed by the Chief Operating Officer or the equivalent of each Verizon BOC/ILEC and each section 272 affiliate and shall include the following:

a. acknowledgement of management responsibility for complying with specified requirements;

b. acknowledgement of management responsibility for establishing and maintaining an effective internal control structure over compliance;

c. statement that Verizon has performed an internal evaluation of its compliance with the specified requirements;

d. statement that management has disclosed or will disclose to the practitioner all known noncompliance occurring up to the date of the draft report;

e. statement that management has made available all documentation related to compliance with the specified requirements;

f. statement that management has disclosed all written communications from regulatory agencies, internal auditors, external auditors, and other practitioners, and any written formal or informal complaints to regulatory agencies from competitors, concerning possible noncompliance with the specified requirements, including communications received between the end of the period addressed in management's assertion and the date of the practitioner's report;

g. statements that: each section 272 affiliate operates independently from all Verizon BOCs/ILECs; no Verizon BOC/ILEC owns any facilities jointly with any section 272 affiliate; and no Verizon BOC/ILEC is providing and did not provide any research and development that is a part of manufacturing on behalf of any section 272 affiliate pursuant to section 272(a);

h. statement that each section 272 affiliate has separate officers, directors, and employees from those of any Verizon BOC/ILEC;

i. statement that no Verizon BOC discriminated between itself or the section 272 affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards (on each Verizon BOC's representation letter only);

j. statement that each Verizon BOC/ILEC subject to section 251(c) of the

Act has fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates (on each Verizon BOC/ILEC's representation letter only);

k. statement that each Verizon BOC/ILEC subject to section 251(c) of the Act has made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has made available to its section 272 affiliates that operate in the same market (on each Verizon BOC/ILEC's representation letter only).

24. The representation letters related to financial issues shall be signed by the Chief Financial Officer or the equivalent of each Verizon BOC/ILEC and each section 272 affiliate and shall include the following:

a. statement that each section 272 affiliate maintains separate books, records, and accounts from those of any Verizon BOC/ILEC and that such separate books, records, and accounts are maintained in accordance with Generally Accepted Accounting Principles (GAAP);

b. statement that each section 272 affiliate has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of any Verizon BOC/ILEC;

c. statement that management has identified to the practitioner all assets transferred or sold since the last Biennial Audit, and services rendered: (i) by each Verizon BOC/ILEC to each section 272 affiliate; and (ii) by each section 272 affiliate to each Verizon BOC/ILEC; and that these transactions have been accounted for in the required manner;

d. statement that each Verizon BOC/ILEC subject to section 251(c) of the Act has charged its section 272 affiliates, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service (on each Verizon BOC/ILEC's representation letter only);

e. statement that, if any Verizon BOC/ILEC and an affiliate subject to section 251(c) of the Act make available and/or have provided any interLATA facilities or services to an interLATA affiliate, such facilities or services are made available to all carriers at the same rates and on the same terms and conditions, and the associated costs are appropriately allocated (on each Verizon BOC/ILEC's representation letter only);

f. statement that management has not changed any of the Verizon BOC/ILEC processes or procedures (as they relate to transactions of any kind with a section 272 affiliate) and that these procedures and processes have continued to be implemented on a consistent basis, since the execution of these agreed-upon procedures without apprising the practitioner, before the date of the draft report (on each Verizon BOC/ILEC's representation letter only).

25. The representation letter related to the disclosure of all section 272 affiliates shall be signed by the Chief Financial Officer of Verizon and shall state that each section 272 affiliate has been identified, accounted for in the required manner, and disclosed in the required manner.

Engagement Process

26. The General Standard Procedures, which were drafted through the cooperative efforts of Federal and State Regulators and various industry groups, are intended to provide general areas of audit work coverage and uniformity of audit work among all regions, to the extent possible, considering state regulatory and corporate differences. The standards identified throughout this document are not legal interpretations of any rules or regulations. To the extent that these standards conflict with any FCC rules and regulations, the FCC rules and regulations govern. Accordingly, by agreeing to these procedures, neither the FCC nor Verizon concede any legal issue or waive any right to raise any legal issue concerning the matters addressed in these procedures.

27. The General Standard Procedures shall be used by Verizon as a guide for drafting the preliminary audit requirements, including the proposed scope of the audit, as prescribed in section 53.211(a) and (b) of the Commission's rules. Under these rules, Verizon shall submit the preliminary audit requirements, including the proposed scope and extent of testing, to the Oversight Team before engaging an independent accounting firm to conduct the Biennial Audit. The Oversight Team shall then have 30 days to review the preliminary audit requirements to determine whether they are adequate to meet the audit requirements in section 53.209 of the Commission's rules and "determine any modifications that shall be incorporated into the final audit requirements" (section 53.211(b)). The preliminary audit requirements and scope of the audit shall be similar to the General Standard Procedures and shall cover all the areas described in that model. Verizon shall not engage any practitioner who has been instrumental during the past two years in designing any of the systems under review in the Biennial Audit. After Verizon has engaged a practitioner to perform the Biennial Audit, the process for drafting detailed procedures shall proceed as follows:

- The Oversight Team and the practitioner shall perform a joint survey of the section 272 affiliates and the relevant Verizon BOC/ILECs. The Oversight Team and the practitioner shall coordinate with Verizon to determine the nature, timing and extent of this survey at a mutually agreeable time and location. The survey shall provide the practitioner and the Oversight Team with an overview of the company's structure and policies and procedures such as record keeping processes, the extent of affiliate transactions, and Verizon

BOC/ILEC procedures for processing orders for services received from affiliates, unaffiliated entities, and its own end-user customers. The survey shall be conducted between four to six months before the end of the period to be covered by this engagement.

- The practitioner shall develop a detailed audit program based on the final audit requirements and submit it for review to the Oversight Team (section 53.211(d)).

- The practitioner shall present the sampling plan for the engagement (See paragraph 9) to the Oversight Team with submission of the detailed audit program following the survey. At the same time, the practitioner shall also present to the Oversight Team a copy of its engagement letter to Verizon disclosing how the practitioner team will comply with the independence requirements of the Sarbanes-Oxley Act of 2002, if such independence compliance information has not yet been provided (See paragraph 17).

- The Oversight Team shall have 30 days to review the detailed procedures for consistency and adequacy of audit coverage and shall provide to the practitioner any modifications that shall be incorporated into the final audit program (section 53.211(d)).

28. Access to all information during the section 272(d) Biennial Audit shall be restricted to: (a) FCC staff members; (b) state commission staff members where the state commission by statute protects company proprietary data; (c) state commission staff members who have signed a protective agreement with Verizon; (d) state commission staff members of any participating state that has confidentiality procedures in effect covering all staff and that requires the Chairman or designee to sign the protective agreement on behalf of the entire commission including commission staff; and (e) state commission staff members who have not signed the protective agreement, but that Verizon does not object to provide oral or written information, provided that they do not take possession of such information.

29. The detailed examination of transactions shall begin at such time as the practitioner deems appropriate to complete the engagement in accordance with the time schedule set forth in section 53.211 and section 53.213 of the Commission's rules.

30. During the conduct of this engagement, and until issuance of the final report to the Commissions, the practitioner shall schedule monthly meetings with the Oversight Team and, at the discretion of the practitioner and the Oversight Team, with Verizon, to discuss the progress of the engagement. The practitioner shall inform the Oversight Team well in advance, but not less than ten days, of plans to meet with representatives of Verizon for the following reasons: to discuss plans and procedures for the engagement; to survey Verizon operations; to review Verizon procedures for maintaining books, records, and accounts; and to discuss problems encountered during the engagement. It shall not be necessary for the practitioner to inform the Oversight Team of meetings with the client to ask for clarification or explanation of certain

items, explore what other records exist, or request data. The practitioner shall immediately inform in writing the Oversight Team of any deviation from, or revisions to, the final detailed audit program and provide explanations for such actions. The practitioner shall submit to the Chief, Enforcement Bureau, and shall copy the Oversight Team and, at the practitioner's discretion, Verizon, any rule interpretation necessary to complete the engagement. The practitioner shall advise the Oversight Team of the need for additional time to complete the engagement in the event that the Oversight Team requests additional procedures (see 31c. below). Finally, the practitioner shall immediately inform the Oversight Team in writing of any delay or failure by Verizon to respond to requests for information during the engagement.

Timetables

31. In order to complete the engagement in a timely manner, the following time schedule for completion of certain tasks is provided:

a. On March 5, 2007 and prior to discussing the findings with Verizon, the practitioner shall submit a draft of the report to the Oversight Team for all procedures.

b. The Oversight Team shall have until April 19, 2007 to review the findings and working papers and offer its recommendations, comments, and exceptions concerning the conduct of the engagement to the practitioner. The exceptions of the Oversight Team to the findings of the practitioner that remain unresolved shall be included in the final report.

c. If the Oversight Team requests additional procedures, the practitioner shall advise the Oversight Team and Verizon of any need for additional time to perform such procedures. Otherwise, after receiving the Oversight Team's recommendations and making the appropriate revisions, the practitioner shall submit the report by May 4, 2007 to Verizon for its comments on the findings, and to the Oversight Team.

d. By June 4, 2007, Verizon will comment on the findings and send a copy of its comments to both the practitioner and the Oversight Team. Verizon will also provide the practitioner and the Oversight Team notification of all items contained in the draft report, which Verizon contends to be confidential. The Verizon response shall be included as part of the final report.

e. By June 14, 2007, the practitioner may respond to Verizon's comments and shall make available for public inspection the final report by filing it with the regulatory agencies having jurisdiction over Verizon. The final report shall contain the procedures employed with the related findings, the Oversight Team's comments, Verizon's comments, the practitioner's reply comments, and a copy of these procedures as executed.

f. Interested parties shall have 60 days from the date the report is made available for public inspection to file comments with the Commission and/or any state regulatory agency.

Report Structure

32. Consistent with the AICPA standards for AUP engagements, the practitioner must present the results of performing the agreed-upon procedures in the form of findings, including dollar amounts, resulting from application of the agreed-upon procedures. The practitioner shall include in the report all the information required to be included in the report by the procedures and any further information required by the Oversight Team subject to the provisions of paragraph 3. The practitioner must avoid vague or ambiguous language in reporting the findings and shall describe in the final report all instances of noncompliance with section 272 or its related implementing rules that were noted by the practitioner in the course of the engagement, or disclosed by Verizon during the engagement and not covered by the performance of these procedures. Where samples are used to test data, the report shall identify the size of the universe from which the samples were drawn, the size of the sample, the sampling methodology used and, where appropriate, the standard deviation and mean. The final report shall contain the procedures employed with the related findings, the Oversight Team's comments, Verizon's comments, the practitioner's reply comments, and a copy of these procedures as executed. The practitioner's report must also contain the following elements:

a. A title that includes the word independent.

b. Identification of the specified parties.

c. Identification of the subject matter (or the written assertion related thereto) and the character of the engagement.

d. Identification of Verizon as the responsible party.

e. A statement that the subject matter is the responsibility of the responsible party.

f. A statement that the procedures performed were those agreed to by the specified parties identified in the report or as directed by the Bureau or the Commission, as specified in paragraph 3.

g. A statement that the agreed-upon procedures engagement was conducted in accordance with attestation standards established by the AICPA.

h. A statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures.

i. A list of the procedures performed (or reference thereto) and related findings.

j. A statement that the practitioner was not engaged to and did not conduct an examination of the subject matter, the objective of which would be the expression of an opinion, a disclaimer of opinion on the subject matter, and a statement that if the practitioner had performed additional procedures, other matters might have come to his or her attention that would have been reported.

k. This report becomes a matter of public record via the practitioner's filing the final report with the FCC and the state regulatory agencies having jurisdiction over Verizon.

l. A description of any limitations imposed on the practitioner by the BOC/ILECs or any other affiliate, or other circumstances that might affect the practitioner's findings.

m. A description of the nature of the assistance provided by specialists and internal auditors.

Exceptions to the General Standard Procedures

I. Throughout these general standard procedures, reference is made to the 'section 272 affiliate'. Since Verizon has more than one 'section 272 affiliate,' the agreed-upon procedures must be performed on all section 272 affiliates, unless stated otherwise in the specific procedures or covered by the exceptions below.

A. The following procedures will not be performed for Verizon International Communications Services Inc. (formerly CICI):
Objective I, Procedure 4;
Objective II, Procedures 1, 2, and 3;
Objective III, Procedure 2;
Objective IV, Procedures 1, 2, and 3; and
Objective V/VI, Procedure 8.

B. None of the procedures in this audit program will be performed for MCI for the period January 3, 2005 through January 6, 2006.

C. In addition, the following procedure will not apply to MCI:
Objective I, Procedure 1.

II. Throughout these general standard procedures, reference is made to the "BOC/ILEC." Since Verizon has more than one "BOC/ILEC," the agreed-upon procedures must be performed on all BOC/ILECs, unless stated otherwise in the specific procedures or covered by the exceptions below.

A. For Objectives VIII through XI, where the procedures refer to "ILEC," the practitioner will perform the procedures only in states that the BOC received 271 authority as of the engagement period.

B. Objective III, Procedure 2, will not be performed for PRTC.

Follow-up Procedures on the Prior Engagement

I. The following matters were noted in the Verizon Communications Inc. Section 272 Biennial Agreed-Upon Procedures Report dated June 13, 2005 and filed with the Commission by Deloitte & Touche LLP ("Deloitte"):

A. As part of the reconciliation between the detailed fixed asset listing and the balance sheet, Deloitte noted that for GNI, of 54,783 asset items, 241 assets with a total net book value of $264,489 did not have an asset description. (Appendix A, I-6 in the 6/13/05 report, I-4 in this program)

B. There were multiple incidents (involving some 14 services) where a Verizon BOC/ILEC provided services to a section 272 affiliate without a written agreement. (Appendix A, V/VI-4a in the 6/13/05 report, V/VI-4a in this program)

C. Of 51 sampled items, Deloitte noted 13 instances where internet posting of affiliate transactions took place more than ten days after signing of an agreement or provision of a service (whichever took place first). (Appendix A, V/VI-5 in the 6/13/05 report, V/VI-5 in this program)

D. For nontariffed services rendered by the Verizon BOC/ILECs to the section 272 affiliates and not made available to third parties, from a sample of 95 transactions, Deloitte noted one transaction where the unit charge was the lower of Fully Distributed Cost (FDC) or Fair Market Value (FMV). (Appendix A, V/VI-6a in the 6/13/05 report, V/VI-6a in this program)

E. For nontariffed services rendered by the Verizon BOC/ILECs to both the section 272 affiliates and to third parties, from a sample of 95 transactions, Deloitte noted: (i) for 2 of the 95 selections, no specific rates for the service were provided in the publicly filed agreements; (ii) for 3 of the 95 selections, the publicly filed agreement indicated the rate as "to be determined;" and (iii) for 1 of the 95 selections, Deloitte noted a difference where the rates charged for certain services provided in California were provided at a 12 percent discount from the rates included in the publicly filed agreements. (Appendix A, V/VI-6b in the 6/13/05 report, V/VI-6b in this program)

F. For all services rendered to the Verizon BOC/ILECs by each section 272 affiliate during the Test Period, from a sample of 95 selections, Deloitte noted that for 5 of the 95 selections, the payment documentation could not be located. (Appendix A, V/VI-8 in the 6/13/05 report, V/VI-7b in this program)

G. For 16 of a sample of 36 invoices (from a population of 177 invoices), Verizon California charged the section 272 affiliate 12 percent less than the stated price in the publicly-filed agreements or statements. (Appendix A, V/VI-11 in the 6/13/05 report, V/VI-10 in this program)

H. For local exchange services, from a sample of 95 Universal Service Order Codes ("USOC") billed to the section 272 affiliates during the randomly selected month of March 2004, Deloitte noted, for two samples, rates charged were different from the applicable tariff rates. (Appendix A, VII-4b in the 6/13/05 report, VII-4b in this program)

I. Deloitte noted one call into the Binghamton Consumer Call Center where the Verizon representative clearly informed the caller of her right to choose a long distance provider, but when the caller asked for "help with that," the representative began to market Verizon Long Distance without informing the caller of a list of other providers. Deloitte also noted one call into the Manhattan Business Call Center where the Verizon representative clearly informed the caller of his choice of long distance providers but failed to communicate to the caller the representative's ability to read a list of other providers of long distance to the caller. (Appendix A, VII-7a in the 6/13/05 report, VII-7a in this program)

J. The performance measures ("PMs") designed to determine compliance with the nondiscriminatory requirements of section 272(e)(1) reveal a varied pattern of performance, some in favor of the affiliates and some in favor of the nonaffiliates, at different stages of completion of the requests for service. (Appendix A, VIII-4 in the 6/13/05 report, VIII-4 in this program)

K. For the randomly selected month of June 2003, Deloitte was unable to replicate 31 performance measurements. (Appendix A, VIII-5 in the 6/13/05 report, VIII-5 in this program)

L. When the BOC imputed charges to itself for interLATA Gateway Access Service ("GAS") and for interLATA International/National Directory Assistance ("IDA/NDA") Service, rates for certain components were either omitted or charged at a rate below the current tariff rate. (Appendix A, X-2 in the 6/13/05 report, X-2 in this program)

M. For Wholesale National Directory Assistance ("WNDA") provided by the Verizon BOC/ILEC to VLD, Deloitte noted differences in the amount invoiced by the BOC/ILEC and the amount paid by VLD for two of the three months selected for inspection. (Appendix A, XI-4 in the 6/13/05 report, XI-3 in this program)

II. When performing the procedures related to the above matters, the practitioner will note in the report whether these matters continued to exist beyond the previous engagement period, what action management took to the extent appropriate to ensure their non-recurrence or improvement, and the effective date of such action. If no action has been taken, obtain and include in the report management's explanation.

Procedures for Structural Requirements

<u>OBJECTIVE I.</u> Determine whether the separate affiliate required under section 272 of the Act has operated independently of the Bell operating company.

<u>STANDARDS</u>

The FCC has issued rules and regulations in CC No. Docket 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended. Some of those rules require that,

- A BOC and its section 272 affiliate cannot jointly own transmission and switching facilities, broadly defined as local exchange and exchange access facilities, or the land and buildings where those facilities are located. (See 47 C.F.R. 53.203(a) and First Report and Order, para. 15, 158, 160)

- To the extent that research and development is a part of manufacturing, it must be conducted through a section 272 affiliate. If a BOC seeks to develop services for or with its section 272 affiliate, the BOC must develop services on a nondiscriminatory basis for or with other entities pursuant to section 272(c)(1). (See First Report and Order, para. 169)

<u>PROCEDURES</u>

1. Inquire of management whether there have been any changes in the certificate of incorporation, bylaws, and articles of incorporation of the section 272 affiliates covered in this Biennial Audit, and whether there have been any legal and/or "doing business as" (DBA) name changes since the last engagement period. For each such change reported by management, and for any section 272 affiliate established or formed since the last engagement period, inspect the certificate of incorporation, bylaws, and articles of incorporation to determine whether these affiliates were established as corporations separate from the Verizon BOC/ILECs. Note in the report the results of this procedure.

2. Obtain and inspect corporate entities' organizational chart(s) and confirm, as appropriate, with legal representatives of the Verizon BOC/ILECs, section 272 affiliates, and Verizon Communications Inc., the legal, reporting, and operational corporate structure of the section 272 affiliates. Disclose these facts in the report. Document and disclose in the report who owns the section 272 affiliates.

3. Inquire of management to determine whether the Verizon BOC/ILECs perform any research and development (R&D) activities on behalf of the section 272 affiliates. If yes, obtain descriptions of R&D activities of the Verizon BOC/ILECs for the Test Period and note any R&D related to the activities of each section 272 affiliate. For R&D related to the activities of each section 272 affiliate, inquire with Verizon BOC/ILEC personnel for more details, such as the extent of R&D provided, progress reports, cost, and whether the section 272 affiliate has been billed and has paid for this service and disclose in the report. For R&D services offered by any BOC/ILEC to any section 272 affiliate, inquire and disclose in the report as to whether R&D service is offered and/or has been performed by the BOC/ILECs when requested by unaffiliated entities.

4. Obtain as of the end of the Test Period the balance sheet of each section 272 affiliate and a detailed listing of all fixed assets including capitalized software which agrees with the amount shown in the balance sheet. If the list does not agree, inquire and document why and disclose in the report by what amount the assets in the Balance Sheet are more than, or less than, as appropriate, the total amount of the assets on the detailed listing. Identify in the report the types of assets involved in these differences and provide explanations. Verify that the detailed listing includes a description and location of each item, date of purchase or acquisition, price paid and recorded, and from what BOC/ILEC or affiliate purchased or transferred (if purchased from a nonaffiliate, then indicate "Nonaffiliate"). Disclose in the report any item, including dollar amounts, where any of this information is missing. Inspect title and/or other documents, which reveal ownership, of a statistically valid sample of transmission and switching facilities, including capitalized software, and the land and buildings where those facilities are located, added since January 3, 2005. If any of these documents are not made available, disclose in the report. Look for and make a note of any facilities that are owned jointly with any Verizon BOC/ILEC and disclose in the report. The balance sheet information obtained in this procedure should also be used to perform Procedure 8 under Objectives V and VI.

OBJECTIVE II. **Determine whether the separate affiliate required under section 272 of the Act has maintained books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell operating company.**

STANDARDS

In CC Docket No. 96-150, Implementation of the Accounting Safeguards Under the Telecommunications Act of 1996, the FCC requires that each section 272 affiliate maintain books, records, and accounts, in accordance with generally accepted accounting principles (GAAP), and separate from those of the BOC. (See Report and Order, para. 170)

PROCEDURES

1. Obtain the general ledger (G/L) of each section 272 affiliate as of the end of the Test Period and match the title on the G/L with the name of the affiliate on the certificate of incorporation to determine that a separate G/L is maintained. Look for special codes, if any, which may link this G/L to the G/L of any Verizon BOC/ILEC and provide documentation. State in the report whether or not a separate G/L is maintained, if not, explain why. Note: Linkage at corporate headquarters for consolidations is an accepted practice.

2. Obtain each section 272 affiliate's financial statements (i.e. Income Statement and Balance Sheet) as of the end of the Test Period.

3. For each section 272 affiliate, obtain a list of lease agreements that were entered into or modified during the Test Period. Identify leases for which the annual obligation listed in the lease agreement is $500,000 or more. Test both leases for which the section 272 affiliate is the lessor and leases for which the section 272 affiliate is the lessee. For a statistically valid sample of leases where the annual obligation is $500,000 or more, obtain a copy of the lease agreement, and make a note of the terms and conditions to determine whether these leases have been accounted for in accordance with GAAP. Determine whether client lease accounting policies are in accordance with GAAP. Disclose in the report any instance where these leases were not accounted for in accordance with GAAP.